

Information notice

IN 18/07 April 2018



This is a formal document that alerts our stakeholders to a change in the way that we regulate the water sector in England and Wales.

Expectations for monopoly company annual performance reporting 2017-18

This information notice sets out the way in which we expect all companies to report their performance for 2017-18. It highlights some of the specific areas of change compared to 2016-17.

Background

Residential customers in England and Wales (and most businesses in Wales) cannot choose their water or wastewater supplier, they must pay monopoly companies to provide these services. Customers need to be confident that they can trust their company to provide these vital public services. Where customers do not consider that the companies are delivering against their promises on price and service it can affect the legitimacy of the sector.

Companies need to be transparent about their performance and customers need to be confident that they are held to account when they don't deliver against their promises. An important part of achieving this is through the publication of information about how the companies are performing.

We expect all monopoly companies to decide how best to report their performance each year. But we also expect companies to publish some common information. This is to allow customers and other stakeholders to compare the performance of individual companies to the rest of the sector. The largest companies also publish their comparative information on a website called 'Discover Water'.

Providing comparative information helps customers and other stakeholders challenge companies on performance and future targets. We also use the information that companies publish to look at their performance in different areas.

Each company's board is accountable for the quality and transparency of the information it provides on its performance. Companies should set out the assurance processes they have followed in

providing the information about their performance. Companies should refer to our [company monitoring framework](#) for further information.

What companies will publish

We have summarised what we expect from companies in [monitoring and assuring delivery](#). As a minimum, we expect companies to publish the following:

- An **annual performance report** which provides specific information on progress on delivery of customer outcomes, service levels, transparent cost information and financial performance. Box A summarises the key points.
- A **risk and compliance statement**, appropriately signed off, in which the Board clearly confirms that the company:
 - considers that it has full understanding of, and is meeting, all its relevant statutory, licence and regulatory obligations and has taken steps to understand and meet customer expectations;
 - has satisfied itself that it has sufficient processes and internal systems of control to fully meet its obligations;
 - has appropriate systems and processes in place to allow it to identify, manage, mitigate and review its risks.

Where the company considers it is unable to provide such a statement it should explain why it is unable to do so.

- A **data assurance summary** of the results of the data assurance that the company has carried out to evidence that the information provided is accurate.
- A demonstration through their annual reporting of how the company is meeting our **board leadership and governance principles**.

Box A Annual performance report – key points

We expect companies to be transparent about their performance and explain clearly, and in a balanced way, what is driving performance and the steps they are taking to improve. This should cover all aspects of performance, including financial and operational performance.

The [Regulatory Accounting Guidelines](#) (RAGs) set out the content of the annual performance report. The report is intended to enable stakeholders to analyse the performance of individual companies and compare them to each other and to the assumptions we made when we set companies' price and service packages ('price controls') for 2015-20. We published the latest version of the RAGs in November 2017.

Each company presents detailed revenue and cost information for the different parts of the appointed business for which we set price controls for 2015-20 ('price control units').

We also use the information to help us monitor company performance. We also collect information at a detailed level in the report in order to inform future price limits.

Regulatory accounting guidelines

In [IN 17/08 Regulatory accounting guidelines 2017-18](#) (published 16 November 2017) we set out the changes to the annual reporting including a comprehensive [list of changes to the RAGs](#). The main changes to the annual reporting are summarised below.

- **Cost assessment** we have incorporated the information requirements into the regulatory accounting guidelines which adds 14 new tables (tables 4J to 4W).
- **New connections – infrastructure** to enable us to monitor companies' compliance with the [charging rules for new connection services](#) we have added a new table (2J – Infrastructure Network Reinforcement Costs) which details expenditure on network reinforcement split between water and wastewater.
- **Bioresources transfer pricing** we have clarified the use of incremental costs to set transfer prices for bioresources to ensure revenues from such trades make a contribution to the costs of both the appointed and the non-appointed business.
- **Disclosure requirements** have been clarified and expanded in respect of
 - transactions with the non-appointed business and associate companies,
 - non-appointed revenue analysis,
 - corporation tax including group relief transactions, and
 - return on regulatory equity (RORE).
- **Outcomes** the finalised guidance is included for the consistent reporting of three metrics (leakage, supply interruptions and sewer flooding). Subsequently we have worked with the sector to agree

final consistent reporting guidance for per capita consumption, mains repairs, sewer collapses and unplanned outage that companies should also report 2017-18 data for in table 3S.

- **Retail eligibility for switching** the definition of “households” has been aligned with the legal definition of “household premises” to ensure that all customers who are not eligible to switch suppliers continue to be protected by a retail price control. The original definition is retained for companies whose areas are wholly or mainly in Wales.
- **Grants and contributions** has clarified the definition of ‘revenue’ in the annual performance report following previous changes intended to prohibit the recognition of grant income as revenue.

Explaining company direction and performance

During the year we challenged companies to set out in a short, annual statement how they are delivering for everybody who depends on their services and how the company has set its aspirations. It is for each company to consider how to do this and there may be a number of aspects to consider, but we see value in each company explaining clearly:

- how its board sets its ambitions and targets and how the company is performing against them. Providing customers with insight into how key decisions are made taking account of different stakeholders, how future direction is set and the trade-offs taken into account can help to demonstrate that the company is taking a fair and reasoned approach to delivering services.
- that the board is thinking dynamically about the expectations of customers in the long term and the company’s commitments do not remain static.
- the relationship between its financial performance, executive rewards and delivery of services to its customers and how these impact future plans. This will help provide transparency about the extent to which rewards are fair and in line with the benefits that customers receive.

Financial metrics

Our [financial monitoring framework](#) includes a set of financial metrics which we ask companies to report on to enable us to monitor both the performance and the financial stability of companies and to provide us with enhanced visibility of company financing and capital structures. These financial metrics are set out in tables 4H and 4I of the 2018 annual performance report table template.

Long term viability statements

Companies are also required to include a long term viability statement within their annual performance report. We have published an [information notice](#) which provides additional guidance about the approach that we expect companies to take when producing that statement.

We may also use other financial information that is included in the annual performance report and in each company’s statutory accounts when considering the financial resilience and stability of the sector or individual companies.

Transparency of financial flows

We are working towards improving the transparency concerning financial flows to investors. Our expectation is that in the future there will be a clear comparison in the annual performance reports (APR) between the financial flows to investors on the basis of the actual capital structures of water companies and what they would have been under our notional structure.

The reporting requirements will be published by 15th April 2018 for completion on a trial basis, with companies returning the information alongside the submission of their 2017-18 APR.

Information on PR14 reconciliation

We explained in our methodology for the 2019 price review that we will collect some of the PR19 business plan information before September 2018. We expect companies to submit their PR14 reconciliation rulebook information and populated PR14 reconciliation models by 15 July 2018. The deadline is extendable by two weeks on request.

Bioresources market information

Companies are required to publish their bioresources market information on their websites by 31 July 2018 (covering the financial year starting on 1 April 2017 and ending on 31 March 2018). We expect each company to provide Ofwat with a link to where its bioresources market information is held on its website.

Assurance and monitoring

Our approach to assurance and monitoring is consistent with strategy under our company monitoring framework. We use published information where possible.

Each company is responsible for implementing assurance procedures to make sure they meet all of their legal and regulatory obligations. Our [company monitoring framework](#) sets out the practical steps for doing this.

The audit opinion provided on the annual performance report is only part of a company's overall approach to assurance. As a minimum the audit opinion should cover the pro forma tables in section one and section two of the annual performance report and should be consistent with the required [wording of the audit opinion](#) that we expect all auditors to provide on the annual performance report for 2017-18.

Where evidence emerges that a company is not providing assurance or may not be complying with its obligations and commitments we will take appropriate action to protect customers. We reserve the option to ask for more specific information on any performance issues which we deem carry

significant risks to customers or if we do not have confidence that a company is meeting its obligations and commitments. The action we take would be targeted, proportionate and progressive in nature – where appropriate starting from informal action and resulting, if necessary, in more formal action. [Our approach to enforcement](#) provides further detail.

Data Capture

We are developing a data capture system for online submission of data table templates to speed up the processing of data. We plan to pilot its use with the 2018 annual performance report data tables. As such we would like companies to complete and upload the 2018 annual performance report tables template to our data capture portal. This is quicker and more efficient for us than extracting the information from the published reports. We will be providing information on how to use the data capture portal in Spring 2018.

We have two data table templates for the annual performance report. One for the [17 largest companies](#) to use and one for the [small companies](#) (with turnover of less than £10.2m) to use.

Next steps

Companies are due to publish their annual performance report by 15 July 2018. We expect companies to:

- As soon as published, and no later than 15 July 2018, provide us with an electronic link to where the annual performance report is held on its website so that we can publish a link to it on our website.
- Send either links to or electronic copies of their statutory accounts (if not bound with the annual performance report).

It would improve transparency for stakeholders if companies also publish or link to the latest accounts of their ultimate controller on their websites.

Companies should send electronic links or copies to PR19@ofwat.gsi.gov.uk.

The key deadlines for the annual performance reporting cycle is set out in box B below.

Box B Timetable

8 February 2018 – regulatory accounts working group meeting. [Meeting minutes](#) have been published.

March 2018 – Ofwat publishes 2017-18 data table templates.

May 2018 – Ofwat consults on changes to the guidance and requirements for reporting performance in 2018-19 which will include new requirements on balancing new connections infrastructure revenues and costs, and improving transparency on financial flows.

By 15 July 2018 – Companies publish their annual performance report, risk and compliance statement and data assurance summary. And upload the data table templates to Ofwat data portal.

By 15 July 2018 – Companies return the trial financial flow information to Ofwat.

July 2018 – Companies submit their PR14 reconciliation rulebook information (part of the PR19 business plan).

By 31 July 2018 – Companies publish their bioresources market information.

Summer / autumn 2018 – Companies prepare and publish their draft assurance plans for 2018-19.

Autumn 2018 – Ofwat publishes the final guidance and requirements for 2019 annual performance report.

January 2019 – Ofwat publishes the assessment of company assurance categories for 2017-18 alongside the PR19 initial assessment of business plans.

Enquiries

If you have any questions about this information notice, please send them to PR19@ofwat.gsi.gov.uk.

More information

[Discover Water website](#)

[Comparing companies, Ofwat webpages](#)

[2018 annual performance report tables, Excel template](#)

[2018 annual performance report tables – small companies, Excel template](#)

[Outcomes, performance commitments and outcome delivery incentives 2016-17, Excel file](#)

[Monitoring and assuring delivery, October 2015](#)

Regulatory accounting guidelines for 2017-18 reporting:

- [RAG 1.08](#)
- [RAG 2.07](#)
- [RAG 3.10](#)
- [RAG 4.07](#)
- [RAG 5.07](#)

[Audit Opinion for the Annual Performance Report 2017-18](#)

[Company monitoring framework – final position, updated July 2017](#)

[Company monitoring framework: 2017 assessment, November 2017](#)

[Information notice 18/04 Expectations for companies in issuing long term viability statements, March 2018](#)

[Information and assurance, Ofwat webpages](#)

[Board leadership, transparency and governance – principles, January 2014](#)

[2014 price review](#)

[Risk-based approach to regulation](#)

[Ofwat's approach to enforcement](#)

Ofwat (The Water Services Regulation Authority) is a non-ministerial government department. We regulate the water sector in England and Wales. Our vision is to be a trusted and respected regulator, working at the leading edge, challenging ourselves and others to build trust and confidence in water.

Ofwat
Centre City Tower
7 Hill Street
Birmingham B5 4UA

Phone: 0121 644 7500
Fax: 0121 644 7533
Website: www.ofwat.gov.uk
Email: mailbox@ofwat.gsi.gov.uk

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